THE TREND OF PRICES[1]

By Charles R. Wood

At the request of the Publication Committee, the speaker undertook to secure from a number of persons with opportunities for viewing market conditions in a broad way, their opinions of the subject which has been introduced so ably by Mr. O'Brien. From the comments and suggestions gathered in this manner, I wish to bring before you the views which seem to best supplement the statements to which you have just listened. The first is from Paul A. Ivy, general sales manager of the American Cast Iron Pipe Company, the second is from the president of one of the largest cement making companies in the country, who declines to allow his name to be given, and the third is from W. W. Macon, one of the editors of the *Iron Age*. A fourth, by Edgar J. Buttenheim, president of *The American City*, will be read by the writer.

P. A. Ivy: Since the signing of the armistice, November 11, 1918, the price question has been a big problem; not so much high prices, as the uncertainty of a stable market and, as a consequence, the "watchful waiting" policy has been largely adhered to.

When the Industrial Board was appointed by the Secretary of Commerce through the efforts of the United States Chamber of Commerce, this seemed to have a stimulating influence. Inquiry was much better and there was an improvement in sales, but the refusal of the Railroad Administration to recognize this board absolutely stopped buying until the result of the controversy was known. With the dissolution of the Industrial Board, the natural forces of supply and demand are now left to adjust prices from war levels to those of peace. Unfortunately, the public is not yet willing to think in terms of present production cost rather than the pre-war basis of finished materials. Present prices can in no way be compared with pre-war figures. If we are going to use the dollar as a basis of comparison, we must for-

[1]Read before the Buffalo Convention, June 11, 1919.

get the value placed upon it prior to the war and think of it only in terms of what it will buy.

As an illustration, if we were selling pipe in Kansas, the principal income of which is from wheat, we should speak of pipe selling not for so many dollars per ton, but rather for so many bushels of wheat per ton. The public must take this view of present market conditions, if they are to have a fair idea of values of any commodity. By the same token, the Kansas farmer is not to be told that he is getting $2.70 per bushel for wheat today, as compared with $1 before the war, but rather it is to be figured that today it takes, we will say, 70 per cent of his production to pay for labor, farming machinery, etc., whereas before the war, 60 per cent of his production paid for the same thing.

Again, municipalities should not consider the difference in cost per ton of the pipe, but the difference in cents per foot of the pipe laid in the ground and its work in increasing the value of the property on the streets through which it has been laid. The discontinuance of improvements in vacant land causes loss in interest and taxes far in excess of any possible difference in the value of the cast iron pipe laid in the trench.

While the pipe industry of the country is not operating to capacity, coöperation on the part of municipalities and all other large users of cast iron pipe would, within a short time, create a demand that would permit maximum production at minimum operating costs. It does not take a Solomon to tell you it makes a great deal of difference in the cost per unit of production, whether the plant is running full or part time, but the manufacturer is not any more willing to gamble on the market than the buying public and right here comes in the importance of pulling together. As the war called for coöperation of all, so the adjustment to new peace conditions calls for the same unusual coöperation. To enable the manufacturer to operate economically, the slogan of the municipality, the public utility, and other buyers, should be to go ahead with needed improvements.

There have been few water or gas installations for the past two years or longer, and extension work has been held up for a like period, except in emergency cases. We, therefore, are safe in assuming that actual existing requirements for home consumption would tax the pipe foundries of this country to their utmost capacities for a long period.

Furthermore, we have every reason to believe that American manu-

facturers have greater opportunities in foreign fields than ever before. For a time, at least, South America must look to us for its requirements and the same is true of the Far East. They cannot draw their supplies from Europe, because so far as Continental Europe is concerned, the seat of the pipe industry, especially Belgium, was in the midst of the fighting area, which means that the foundries must be rebuilt. The English foundries will be taxed to take care of domestic demands, but should they have any surplus, Continental Europe will certainly absorb it until they get their foundries to going. There probably never was a time in the history of the industry when stocks at the pipe shops in the United States were as low as they are today, and the probabilities are that the law of supply and demand will be a big factor in the immediate future. Close coöperation between the buyer and the manufacturer, backed up by a little faith on the part of both in each other, is what we need. Indeed the outlook for business in this industry is good, but the country is suffering from a severe case of "cold feet," caused by ungrounded fears. "Cold feet" seems to be a spasmodic affliction of business and we lack courage to go ahead.

A Cement Manufacturer: Cement prices at the present time seem very high. In the East and Middle West they have declined somewhat since the signing of the armistice. The writer's belief is that there is likely to be a tendency toward still lower prices. It is, however, quite out of the question to expect any very large decline in the immediate future, and it is safe to say that cement prices will never again be as low as before the European war.

During the last two years, in 1918 especially, the building industries in this country were very seriously affected by war conditions indirectly and by Government action directly, so that while prices were on a high level, the volume of business was so restricted as to make the cement industry unprofitable, many companies not only making no profit but incurring large actual losses. Up to the present time there has not yet been sufficient recovery of normal conditions to give the manufacturers of cement anything like a normal volume of business. For this reason profits are very small.

The political economists, notably Fisher,[2] Holden and Moulton, have clearly presented data which should convince anyone making a

[2] See Journal, June, 1919, p. 323.

careful study of present conditions that prices are likely to remain permanently at their present level, for if there is a decline, this decline will be comparatively small. High prices as they are called, are not local, they are world wide and apply to all commodities. Fundamentally these prices have been brought about by the inflation of circulation throughout the world, the high cost of living and high wages. These facts make the cost of raw material, including fuel, high, and while some of the items in the cost of living may decline within the next year or two, others, more particularly rent and housing expenses, are likely to advance.

W. W. MACON: If the writer were a custodian of public funds and sat on some board considering the authorization of, say, municipal construction work, he would be inclined to favor the expenditure at this time. He would be backed by a large part of the public and certainly by the Government at Washington as a whole, as everywhere stress is put on minimizing or preventing unemployment.

The business world has had an unusual spectacle at Washington. The Department of Labor, has been flooding the country with literature all intended to encourage construction work and thus very directly to keep everybody employed. As a part of its propaganda, it has given widespread circulation to different addresses by prominent men of the country to the effect that high prices are to remain with us more or less indefinitely; conspicuous in this literature has been the talk by Prof. Irving Fisher before the meeting of governors and mayors at the White House. In contrast with this department, which has been arguing for the stability of present prices, has stood the Department of Commerce with a plan to bring producers together to secure a new and presumably lower set of prices, thus to convince the buying public that the best possible prices are those resulting from the conferences. A third department, namely the Railroad Administration, disagrees with the Department of Labor that prices are on an indefinitely high level and even has refused to accept the lower prices through the action of the Department of Commerce. By its refusal it intimates to the country that lower prices are still obtainable in the immediate future.

The Railroad Administration seems to be of the opinion that business should be conducted in the usual way with the free play of all the factors influencing prices, but has overlooked two things, in the opinion of producers as a class. So long as the Government empha-

sizes that wage rates must not be touched (and a large percentage of the public is of the same opinion), one of the main elements in price readjustment is fixed. The other factor is that there has been an unexpectedly prolonged disinclination on the part of the whole world to go in heavily for trading, so great apparently has been the shock of the transition from a war to a peace basis and so much does the result of the peace deliberations at Paris affect world business activity.

Business was on a healthy upturn when the Department of Commerce secured Presidential approval of the plan of stabilizing prices, so-called. Then activity dropped off sharply and had shown no great signs of being renewed even when the Railroad Administration threw a bolt into the machinery. Meanwhile iron and steel producers are holding closely to the price reductions to which they agreed on March 20 at the conferences with the Industrial Board.

At the present time (April 30, 1919) there are signs of weakening, but concessions here and there, amounting to $1 per ton, do not point as yet to sharp cuts. Should a wide buying movement develop say in July, after some incidental cuts, as seems likely, it is believable that it will amount to such proportions that by the end of the year prices will be strong even should there be reductions in living costs and a general readjustment which would otherwise be reflected in a lower selling price of iron and steel commodities.

In conclusion, it seems clear that if some of the cost elements must not be reduced because of the Government attitude or public opinion, prices cannot be materially lowered. Somebody must pay the bills. To sell under costs cuts out profit taxes to the Government. It would have been well for the Railroad Administration to recognize the desirability of encouraging a return to peace time activities, though the conditions may seem partly artificial. Its widely heralded decision not to coöperate has kept the neutral world from our markets except for necessary food products. The United States has a moral obligation to the nations with which it was associated in the war not to attempt to take undue advantage of its healthier economic position. It can still liquidate its war price levels of wages quicker than they can abroad, but it may best be made a matter of months or years rather than days.